

Message Text

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PAGE 01 MOSCOW 07716 011611Z

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USDOC FOR BEWT

E.O. 11652: N/A

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SUBJECT: CONTRACT NEGOTIATIONS ON LUBRICATION OIL FACILITY IN USSR

REFS: (A) 76 MOSCOW 19356, (B) 76 MOSCOW 15679 (ALL NOTAL)

SUMMARY: NISSHO-IWAI REPS DISCUSSED POSSIBLE SALE BY GULF AND FOSTER-WHEELER AND TWO JAPANESE FIRMS OF LUBRICATION OIL FACILITY TO USSR, WITH ANTICIPATED START-UP IN 1983. PROBLEM IS THAT GULF WISHES TO CONTRACT SEPARATELY FOR SALE OF HYDROTREATING TECHNOLOGY, WHICH IS ESPECIALLY ADVANTAGEOUS IN VIEW OF HIGH SULPHUR CONTENT OF WEST SIBERIAN CRUDE OIL, WHEREAS SOVIET FTO IS INSISTING ON SINGLE CONTRACT WITH DEFERRED PAYMENT. END SUMMARY.

1. NISSHO-IWAI COMPANY REPS SABURO KUBOTA (OIL AND GAS) AND AKIRA MACHIDA (CHEMICAL MACHINERY) FROM TOKYO CALLED ON E/C COUNSELOR MAY 31 TO DISCUSS PROJECT FOR CONSTRUCTION OF LUBRICATION OIL FACILITY AT VOLGOGRAD, USSR (CAPACITY AS IN REF A) BY GULF (FOR HYDROTREATING TECHNOLOGY), FOSTER-WHEELER (FOR DETAILED ENGINEERING), AND ISHIKAWAJIMA HARIMA IND. (IHI). NO US BANKS ARE INVOLVED, BUT JAPANESE EX-IM BANK STANDS BEHIND IT. QUESTION OF WHO SHALL BE LIMITED OFFICIAL USE

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PAGE 02 MOSCOW 07716 011611Z

PRIMARY CONTRACTOR HAS NOT BEEN RESOLVED, NOR WHETHER THE AMERICAN FIRMS WILL SIGN CONTRACT WITH SOVIETS OR BE SUBCONTRACTORS. FIRMS HAVE HAD NEGOTIATING ROUNDS IN DECEMBER 1976 AND APRIL 1977 WITH SOVIET FOREIGN TRADE ORGANIZATION MACHINOIMPORT, REPRESENTING SOVIET MINISTRY OF OIL REFINING AND PETROCHEMICAL INDUSTRY. A ROUGH TARGET DATE FOR CONTRACT SIGNING WOULD BE JANUARY 1978 BUT TECHNICAL

AND CONTRACTUAL PROBLEMS REMAIN.

2. PURPOSE OF VISIT BY NISSHO-IWAI REPS WAS TO INQUIRE WHETHER US FIRMS HAVE BEEN SUCCESSFUL IN SEPARATING SALES OF TECHNOLOGY FROM MAIN CONTRACT, AS GULF STRONGLY PREFERS TO DO. NISSHO-IWAI TRIED THIS ONCE WITH USSR BUT FAILED AND HAS CONCLUDED THAT SOVIETS WILL INSIST ON SINGLE CONTRACT. THEY STATED THAT TERMS OF CONTRACT (ROUGHLY) ARE \$150 MILLION, WITH 10 PERCENT AS DOWNPAYMENT AND AN ADDITIONAL 5 PERCENT ON DELIVERY OF PRELIMINARY PROJECT DOCUMENTS (SEE REFTEL A, STATING THAT CONTRACT IS FOR \$250 MILLION). BULT OF PAYMENTS (75-80 PERCENT) WOULD BEGIN AFTER DELIEVERY OF FINAL HIPMENT OF EQUIPMENT (ABOUT THREE YEARS AFTER SIGNING OF CONTRACT) AND CONTINUE OVER EIGHT YEARS ON SEMI-ANNUAL BASIS. WE ACKNOWLEDGED OUR OWN IMPRESSION OF STRONG SOVIET PREFERENCE FOR LUMP SUM CONTRACT AND LACK OF KNOWLEDGE OF PRECEDENTS TO CONTRARY. IN RESPONSE TO OUR INQUIRY WHETHER GULF COULD SELL TECHNOLOGY TO IHI, JAPANESE REPS SAID THERE STILL IS MUCH TO BE DECIDED AS TO RESPONSIBILITIES OF THE VARIOUS PARTIES TO THE POTENTIAL CONTRACT.

3. KUBOTA SAID THAT SOVIETS PREFER GULF TECHNOLOGY OVER STANDARD TECHNOLOGY BEING OFFERED BY COMPETITORS. HE NOTED THAT HIGH SULPHUR CONTENT OF WEST SIBERIAN OIL MAKES THIS SUPERIOR TECHNOLOGY PARTICULARLY IMPORTANT. THE FACILITY WOULD EVENTUALLY PRODUCE 500,000 TONS OF LUBRICATING OIL ANNUALLY. THE SOVIETS WOULD LIKE TO HAVE THE PLANT AT FULL CAPACITY BY 1983 (THIS MAY BE CONSISTENT WITH REFTEL A), WHICH APPEARED TO DICTATE REACHING A CONTRACT BY THE BEGINN- LIMITED OFFICIAL USE

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PAGE 03 MOSCOW 07716 011611Z

ING OF 1978. HOWEVER, THE NISSHO-IWAI REPS DECLINED TO COMMIT THEMSELVES TO HOW LONG IT WOULD REQUIRED TO REQCH FULL CAPACITY AFTER THE LAST DELIVERY OF EQUIPMENT, COMMENT- ING THAT THIS WAS DIFFICULT TO PREDICT IN SOVIET CONDITIONS.

4. JAPANESE VISITORS APPEARED TO FELL THAT GULF HAD DISCUSSED THIS PROJECT WITH USDOC IN TERMS OF LICENSING OF TECHNOLOGY AND HAD NOT BEEN DISCOURAGED FROM PROCEEDING FURTHER.

5. ACTION REQUESTED: NISSHO-IWAI INDICATED THAT THEY MIGHT CONTACT US AGAIN AT A LATER STAGE OF THE NEGOTIATIONS. IF DEPART OR USDOC HAS ANY COMMENT ON SOVIET EXPERIENCE IN CONTRACTING WHICH WOULD BEAR ON THE ISSUE IN POINT, WE WOULD BE GLAD TO RECEIVE IT. WE WOULD BE PARTICULARLY INTERESTED IN HEARING GULF'S SIDE OF THE STORY, IN CASE IT SHOULD DIFFER FROM WHAT JAPANESE HAVE TOLD US. (WE HAVE NOT HEARD FROM GULF SINCE LAST DECEMBER). MATLOCK

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Sent Date: 01-Jun-1977 12:00:00 am
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Disposition Case Number: n/a
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